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Financial Markets 8/1/

Irving Trust

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Economic Research &
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Friday
(Noon)

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At last, after substantial urging and cajoling by Chairman Volcker, the House of Representatives has passed legislation favoring the $8.4 billion increased contribution of the U.S. to the IMF. While the Senate and House have yet to iron out their differences on this bill, I believe that optimism is appropriate at this point. Congress is to be commended for passing essential legislation that probably doesn't earn many votes "back home." This is unfortunate. Indeed, it's true that the IMF bill has come to be seen as legislation that helps the banks; but the true constituency for this legislation is much broader.

Providing the IMF with greater financial resources benefits the world economy: importers, exporters, financiers, and others. IMF financial resources will not replace those of the commercial banks but, rather, will enhance them. The IMF is too small to ever replace the banks. Moreover, the IMF currently requires private banks to increase their contributions to needy borrowers before the IMF will agree to lend. Thus, the increased IMF contribution by the U.S., and that of other IMF member countries, helps developing countries to keep their debt payments current and their imports at somewhat higher levels than they otherwise could support. This helps to prop up global demand and to stave off possible political crises in the LDCs.

Nonetheless, some hold that further payment to the IMF is not appropriate. To some, funds paid to the IMF are merely another government expenditure further exacerbating the already excessive level of government spending. However, the U.S. earns interest on its IMF contributions approximately equal to the Treasury's borrowing costs. Thus, IMF contributions, unlike other government spending, do not represent a net financial drain. Furthermore, Chairman Volcker has pointed to increased IMF contributions as a way to help diminish the systemic risk of international lending.

The current synchronized global recession has intensified the risks of lending internationally: It has made some risks nondiversifiable. To the extent that these risks are due to tight global financial conditions, the commercial banks should not be held responsible. The widespread debt problems are the result of a global anti-inflation effort. Support of the banking system must be part of this program. Yet some country-specific risk must remain because this is the essence of competitive international financial markets. A modest IMF resource injection is widely thought to be the best means to achieve these ends.

Still, the debt problem is a hard one to solve. Its solution is not made easier by current rising U.S. interest rates. However, the Federal Reserve remains alert to the international implications of its policies. At the same time, the Fed stands guard against inflation: thus rising rates. The Fed clearly believes that sustained economic recovery in the U.S. is a critical ingredient to the long-term solution of the debt problem. Modestly rising interest rates are a short-term cost of this long-term goal.

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Market Yields

	8/5/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	10.50%	10.50%	15.00%
Effective since	2/28/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	11.00
Federal Funds	9.63	9.50	10.75
Repurchase Agreements	9.50	9.13	10.75
U.S. Treasury Issues			
Bills			
3 months	9.77	9.50	10.44
6 months	10.23	9.97	11.68
1 year	10.62	10.35	12.44
Coupons			
2 years	11.25	10.91	13.14
4 years	11.69	11.37	13.73
7 years	11.99	11.62	13.83
10 years	12.10	11.66	13.72
Long Bond	12.11	11.68	13.73
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.65	9.45	11.15
3 months	9.90	9.60	11.55
6 months	10.30	10.15	12.35
1 year	10.90	10.55	13.00
Banker's Acceptances			
1 month	9.55	9.40	10.95
3 months	9.98	9.70	11.20
6 months	10.50	10.17	11.30
Eurodollar Deposits			
1 month	10.00	9.75	11.75
2 months	10.25	10.00	12.25
3 months	10.50	10.13	12.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.40	9.40	10.92
1 month	9.71	9.45	11.00
3 months	10.00	9.74	11.20
Bank Holding Companies			
1 month	9.33	9.19	10.74
Dealer Placed:			
3 months	9.94	9.63	11.20
New AA Corporate Utility Bond	13.45	13.00	15.65
Tax Exempt			
6 month Project Notes	5.25	4.95	6.75
1 year AAA Bond	5.50	5.50	7.75
5 year AAA Bond	7.10	7.00	8.75
20 year AAA Bond	9.30	9.30	11.25

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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